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FISCAL IMPACT REPORT

ORIGINAL DATE 1/28/07
 SPONSOR Cote LAST UPDATED 3/6/07 HB 207
 SHORT TITLE Armed Forces Income Tax Exemption SB _____
 ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
(\$2,950.0)	(\$11,990.0)	(\$10,400.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB368, SB43, SB492, SB493, HB497

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

Responses Received From
 Taxation and Revenue Department (TRD)
 Department of Military Affairs (DMA)

SUMMARY

Synopsis of Bill

House Bill 207 exempts income earned from active duty service from the state personal income tax. The effective date is January 1, 2007 so would apply for tax year 2007.

FISCAL IMPLICATIONS

Exempting active duty salaries from personal income tax would result in an annual \$10 million reduction in personal income tax revenues going to the general fund. Since tax year 2007 is partially over, it is assumed that 30 percent of tax year 2007 impact is in FY07 and 70 percent is in FY08, inflating FY08 above \$10 million. FY08 also contains half of tax year 2008's impact.

According to TRD, the fiscal impact is based on approximately 7,000 active duty military in New Mexico earning an average \$45,000 per year as well as an additional 3,000 active duty

National Guard and army reserve members. The average tax relief to service members would be \$1,350 and \$133 for National Guard and army reserve members.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure would impose relatively minor administrative impacts on the Taxation and Revenue Department. Provisions of the proposal could be administered with resources currently available to the Department.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

There are several bills that have been introduced to exempt active duty military pay, military retirement income, and earned income of military retirees. SB492 exempts all income for active duty military. HB 368 exempts earned income by military retirees up to \$50 thousand. SB 43, SB 493 and HB 497 exempt military pension income.

TECHNICAL ISSUES

According to the Department of Defense, “Active Duty” refers to “Full-time duty in the active service of a Uniformed Service, including fulltime training duty, annual training duty, and attendance while in the active service at a school designated as a Military Service school by law or by the Secretary concerned.”

TRD notes that, as written, the measure could be interpreted to include an exemption for federal personal income tax obligations. It should be amended to clarify that it does not.

OTHER SUBSTANTIVE ISSUES

By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the \$1,575 per claimant mentioned above. The \$1,575 in state tax savings would, for example, be reduced to \$1,260 ($\$1,575 \times .8$) for a taxpayer in the 20% federal tax bracket.

NF/nt